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Help Guide – FAQs on Monitoring Obligations (09/30/2002)

NOTE: Until Phoenix is installed and operational in all field Missions, the Mission Accounting and Control System (MACS) will continue to be used as a funds control system. The equivalent MACS terminology for terms used in Phoenix is indicated in parentheses following the Phoenix term.

DEOBLIGATION

Q: Some Controllers are really *aggressive* in deobligating purchase orders (POs) that relate to shipping/freight. The argument is that *“once deobligated, and the charge comes in, we can ask USAID/W for the money and upward adjust the fund cite.”* What is USAID/W’s position on this and is the money readily available?

A: In regards to the deobligation of funds, the Agency should strive to keep its portfolio as current and accurate as possible. There needs to be a less aggressive approach that might be time-driven and a more thoughtful process for deobligation. In regards to deobligation of POs relating to shipping/freight, the criteria should be the reasonableness of the obligation and its amount and the likelihood that it will be liquidated in the future. The criteria of "once deobligated and the charge comes in, we can ask USAID/W for the money and upward adjust the fund cite" would not be acceptable. (Although in most past cases there have been enough funds (either unobligated carryovers, new deobligations, or unobligated expired funds available for upward adjustment) to cover the request, this cannot always be guaranteed.) Currently, the Bureau for Management, Office of Financial Management (**M/FM**) is under a fair amount of fire for premature deobligations, which require upward adjustments. On the other hand, one should not refrain from deobligating funds at all based solely on the possibility of a future charge. Again, the criteria should be the reasonableness of the obligation and how likely it will be liquidated in the future. This practice can be applied in all instances, not just to POs.

While M/FM does allow Missions to upward adjust budget allowances, from a budgetary standpoint, the Bureau for Policy and Program Coordination, Office of Resource Allocation (**PPC/RA**) counts on these amounts to be very small. If they should suddenly become significant, however, PPC/RA would have to start taking them into account and consider reducing the amount allowed to the field.

In USAID/W, POs are obligated in the New Management System/Acquisition & Assistance module (**NMS/A&A**) system. Only the Contract/Agreement Officer or the

closeout team can deobligate them. POs go through a review which, while not as extensive as that required for a contract, is a review nonetheless. The review determines if the shipping/freight has been paid, and will not deobligate if it has not been paid. The upward adjustment process of A&A awards is very cumbersome and involved. The Bureau for Management, Office of Financial Management, Accounting Division (**M/FM/A**) upward adjusts the funds in Phoenix, slightly changing the A&A number. The amount upward adjusted must be within the amount previously deobligated by the Bureau for Management, Office of Procurement (**M/OP**). Since the implementation of NMS in 1997, M/FM staff cannot recall a single PO in USAID/W that had to be upward adjusted because the freight charges had been previously deobligated.

Q: How long should we keep the unliquidated balance of an obligation if there are pending vouchers (*not for the full amount*)?

A: If there are pending vouchers, the Obligation Manager (Cognizant Technical Officer (**CTO**), Activity Manager, Strategic Objective (**SO**) Team Leader, Executive Officer, etc.) must contact the vendor, confirm the amounts to be vouchered, and initiate a request to deobligate the remaining amount minus any closing costs, if any, as determined by the Contract/Grant Officer. Ask the vendor to send the vouchers immediately. [**See also the responses to the following two questions for further clarification.**]

Q: How long shall we keep the unliquidated balance and wait for final audit, when overhead rates are still in negotiation? (*Time vs. appropriate use of funds*)

A: Residual funds sufficient to cover future indirect cost claims will remain on an award until it is closed. Deobligation of funds that will need to be reobligated later is not a productive exercise. However, “**excessive**” residual funds must be identified and deobligated on a timely basis. Thus, vendors will be asked to calculate the maximum amount due, taking into account its actual audited indirect cost rates, whether formally negotiated as final or not. Any residual funds above this expected liability are excessive and safe to deobligate. The vendor will know its actual indirect cost rate(s) upon completion of its annual audit. At this time (i.e., yearly upon receipt of annual audit), vendors are encouraged to submit adjustment vouchers, eliminating the difference between previously billed provisional rates and actual rates incurred. If accomplished, this should minimize or negate altogether excessive funds on expired awards. If the subsequent issuance of the Negotiated Indirect Cost Rate Agreement (**NICRA**) finalizes the rate at the actual incurred rate, no further adjustments will be required.

Q: How long should a project be listed in our books, pending closeout information from USAID/W?

A: A project must remain listed in the books until closeout information from USAID/W is received. If you are having trouble obtaining such information from USAID/W, contact Steve Tashjian, Chief, Overhead, Special Costs and Closeout Branch (**M/OP/PS/OCC**) at sttashjian@usaid.gov or (202) 712-5321.

Q: Can Washington advise how the funds deobligated under various prior-year operating expense (OE) budget plan codes are utilized?

A: Prior-year deobs (any prior year) under the OE budget plan codes are accumulated and carried into the next fiscal year to be used as generally available funds. They tend to be actually spent in Washington, but when the Agency makes budget allocations, they are figured into the total available.

BUDGET ALLOWANCE DELAYS

Q: We sometimes do not receive the budget allowance for programs until June/July. How are we expected to obligate by September 30? This long delay in receiving funds also creates heavy work pressure during the end of fiscal year. The problem remains with USAID/W.

A: There are many reasons, usually outside of USAID's control, why PPC/RA may allot funds to the Bureaus later than one would wish. Before an Operating Unit (**OPU**) can receive its allowance, several steps must be taken:

- 1) USAID must wait for an appropriation to be signed. (In FY 2002, the budget bill was received particularly late.)
- 2) PPC/RA and OMB negotiate any final control levels.
- 3) The Bureau for Legislative and Public Affairs (**LPA**) and PPC/RA inform the Bureaus of the various congressional earmarks and directives so they can develop the specific country levels afterwards.
- 4) OPUs inform the Bureaus how to obligate the funds (i.e., bilaterals vs. Washington-based field support).
- 5) In collaboration with the Bureaus, PPC/RA allocates targets for directives and discretionary funds, taking into account the performance results of Missions and central programs.
- 6) Once the Operating Year Budget (**OYB**) is set (i.e., once the allocations have been decided), the Agency must send the Section 653(a), or Country Allocation Report, to the Hill to inform Congress of this whole process. (Often, the State Department will also submit a separate report on the Economic Support Fund (**ESF**), Support for East European Democracy (**SEED**), and Freedom Support Act (**FSA**) accounts or request that USAID wait until those accounts can be incorporated into the Agency's Section 653(a) report. This year USAID waited for over a month.)
- 7) OMB then releases funds to USAID.
- 8) PPC/RA allots the funds to the Bureaus for distribution to the Missions and Washington offices for obligation and subsequent disbursement.

By the end of April 2002, virtually all the funds that OMB had apportioned to the Agency (75% of total appropriation) had been distributed to the Bureaus. PPC/RA reported that under the new Administration in FY 2002, processing ESF funds was particularly difficult

(but is working better now) because USAID must wait until State decides how much ESF a particular country will receive. It should be noted that an OIG audit is currently looking at the issue of speeding up allowances.

Another factor delaying the budget allowances in FY 2002 was OMB's push toward quarterly apportionments of Development Assistance (**DA**), a position from which they subsequently backed away. OPU's must have their obligation plans in place so that the funds can be moved quickly when they are received. Also, with two-year and no-year funds, we are not under as much pressure to obligate New Obligation Authority (**NOA**) funds by September 30. And the 85 percent rule that put a lot of pressure to get funds obligated by September 1 only applies to expiring funds.

Q: During continuing resolutions, is it possible for USAID/W to improve on the timing of getting allowances out to the field?

A: Limits on funding under continuing resolutions (**CRs**) constrain the Agency's ability to get funds out to the field. PPC/RA typically asks for emergency needs for both OE and program funds. Recently, at the request of the AA and the Administrator, PPC formed a team to look at OE and management issues.

ADVICE OF CHARGE (AOC) AND INTRA-GOVERNMENTAL PAYMENT AND COLLECTION (IPAC) DELAYS

Q: Decommithment of funds under Letter of Credit (LOC) contracts takes too long and therefore monies cannot be reprogrammed. Please explain IPAC delays, discuss any improvements underway, and provide the name of a contact person in USAID/W.

A: In 1998, USAID entered into an agreement with the Department of Health and Human Services (**DHHS**) for cross-servicing the LOC payment process through the DHHS Payment Management System (**PMS**). M/FM/CMP completed the task of transferring approximately 300 active LOC recipients to the DHHS/PMS in December 1999. M/FM/CMP then initiated a comprehensive review and reconciliation of each LOC recipient's records to ensure the accuracy of the data transferred to DHHS and to liquidate the advances already issued to the recipients prior to the transfer to DHHS. Once LOC recipients were transferred to the DHHS system, they were required to submit grant expenditure information on the PSC-272 report to DHHS instead of submitting the SF-269 to M/FM/CMP. Since July 1998, all recipients new to the LOC payment process have been set up in the DHHS PMS.

The LOC reconciliation and the cross-servicing of the LOC payments with DHHS will alleviate any long outstanding issues with any LOC awards. The new payment process will also eliminate the sometimes lengthy lag between the time a grantee submits an expenditure report and the time the expenditures are relayed to the Mission. The LOC process requires the grantee/contractor to submit quarterly reports on expenditures to

DHHS. The data from these reports is then retrieved from DHHS's PMS and loaded to spreadsheets, and the IPAC charges are prepared. The actual IPAC charges are generally sent out within seven days of the data being received by the Office of the CFO.

As far as the de-subobligation (decommitment) of funds under LOC is concerned, the process should really not be any different than other USAID grants. M/FM notifies the Mission Controllers via memorandum when the grantees submit a final SF-269. Note that while the transfer of the payment process eliminated the need for the grantees to submit all of the SF-269s to M/FM, the grantees are still required to submit the **final** SF-269 to M/FM. Between the time the awards expire and the final invoice is submitted by the grantee, Grant Officers can de-subobligate (decommit) unneeded funds (minus expected closeout costs). Missions just need to make sure a copy of the grant modification that deobligates unneeded funds is forwarded to the LOC branch in M/FM.

Questions regarding specific IPAC charges related to LOC awards should be directed to **Brij Nagpaul** (bnagpaul@usaid.gov or (202) 712-1012) with a copy to **James Dubois** (jdubois@usaid.gov or (202) 712-1901) or **Bella Maipid-Smith** (bmaipid-smith@usaid.gov or (202) 712-4159).

Q: Funds were subobligated (*committed*) under PO in 1997 and goods were received in 1998. To date, no payment has been made and the Project Activity Completion Date (*PACD*) was 09/30/2000. We have been trying to follow up with USAID/W to Advice-of-Charge (AOC) and/or Intra-Governmental Payment and Collection (*IPAC*) with no success. Shall we de-subobligate (*decommit*), de-subcommit (*de-earmark*), and deobligate the funds? If later the Mission receives an AOC and/or IPAC, what shall we do?

A: There is no hard and fast rule to an issue such as this. If a Mission is experiencing unusually long delays in receiving IPAC or AOC charges, contact **Brij Nagpaul** (bnagpaul@usaid.gov or (202) 712-1012) for initial investigation. If there is no adequate answer, the issue should be referred to the **Deputy CFO, David Ostermeyer** (dostermeyer@usaid.gov) for further consideration and final resolution. Deobligation is a very real possibility. If funds are IPAC'd to the Mission, an upward adjustment might be required.

FORWARD FUNDING

Q: How far can an obligation be funded in a Continuing Resolution (*CR*) period?

A: For program funds, one may forward fund under a CR as if it were an entire fiscal year, applying the forward funding standards set forth in ADS 602.

For OE funds under ADS 603.5 cited below, one may forward fund for that FY as long as one feels necessary. One could forward fund PSC contracts for the entire FY with CR funds or through the first quarter or some other period.

“603.5.3 APPLICATION TO CONTINUING RESOLUTIONS (CR)

The policies in 603.5.1a through 603.5.1l also apply during a continuing resolution (CR). A CR is a temporary appropriation, pending enactment of a regular appropriation for the entire fiscal year(s). While obligations under a CR must be entered into during the CR period, a CR is available for the bona fide needs of the entire fiscal year or years. Therefore, a particular obligation may be funded for the entire fiscal year, or in the case of multi-year appropriations, for the fiscal years, not just the period of the CR. For example, under a 3-day CR for FY 2000 a severable PSC contract must be obligated during the 3-day period but may fund contract performance beyond the 3-day period, not to exceed the period specified in 603.5.1(c). The ability to incur such obligations, however, is subject to the availability of funds provided to the operating unit for obligation for the period of the CR.”

Q: Does the forward funding policy apply to trust funds?

A: When PPC/RA staff drafted the forward funding policy, they did not really consider trust funds. They were focused on the funds directly appropriated to USAID or funds appropriated to another U.S. agency and given to USAID to manage. The policy was in response to congressional concerns over how USAID manages its pipeline with respect to funds directly appropriated by Congress. Thus, ADS 602 does not specifically include or exclude trust funds. Whether the policy should be applied depends on several considerations. These include the agreement with the host country, the extent of USAID management control, whether the obligating instrument is identified for program rather than OE support, and whether it makes good program sense.